



Final-Final

Posted by [Pierluigi Oliverio](#) on Monday, June 28, 2010

The final-final vote for the budget is tomorrow, to enact appropriations. Much work goes on behind the scenes with our budget office. Each time a change is made it is an arduous effort to balance the books and calculate the impact on the budget.

If there is a compensation cut in a private sector, it is simply a reduction off the top of base pay — that is easy to calculate. However, when we have unique requests from labor unions that require municipal code changes or legal interpretations of the city charter, it gets complicated.

Quickly, there is a ripple effect that creates work for the budget office, finance department, City Attorney, retirement department and office of employee relations.

This is why I believe labor negotiations as public meetings would be best, because information can be shared early on and we'll know the ramifications of different options.

Part of the pain of the budget office is that our city uses 20-year-old financial software. When you are dealing with a \$3 billion budget with many different types of funds and unique requests, much of the process becomes manual. This is time consuming and increases the chances of error.

Installing new financial software is no easy task and is at least a \$10-15 million line item (Interestingly, \$14.3 million is the projected payout this year for accrued sick leave).

When we talk about core services, we may think of sewers and streets. Nonetheless, there is the need to make things work on the back end.

Considering San Jose's structural deficit, it will be quite a challenge to figure out how to pay for this financial system. Open source software can be looked at as an alternative, but we are talking about managing

a complex multibillion dollar budget. So, I am inclined to choose a solution that has a track record.

There are so many needs in San Jose that competing for limited funds and resources has become a trading game. Some will say that public safety, for example, is so important we should spend the reserves to avoid cuts. I acknowledge this argument. I'm open to draining the reserves and then — when the State of California takes more money from cities or the tax revenues dip — we simply start laying off people with a two week notice.

However, it is not a choice I would make. Why spend all the reserves while we still fund charities with \$10 million in Healthy Neighborhoods Venture Funds (HNVF)? I mean, if public safety is really so important and people are saying that "people will die" because of the budget cuts this year, why continue to do things that are discretionary with general fund dollars?

The HNVF money is not legally restricted like RDA funds or capital funds. All it takes is six votes to redirect this money.

I am not sure why city employees do not support the HNVF money, to be used for themselves and their colleagues. I think that our employees are worth keeping and worth using the HNVF money to keep them employed.

This might be another disconnect between the city employees and the larger labor union movement that supports the HNVF status quo over their own membership's employment. We cannot be everything to everyone during tough fiscal times.

Some say we are heading into another financial storm. The Federal Reserve and the federal government still have the foot on the gas. But, the economy is sputtering. We had terrible housing numbers last week, and a weakened consumer spending outlook, thus revising GDP growth down last quarter.

Sovereign debt in Europe and Japan continues to be a worry. Japan is going to limit bond spending which seems like the lifeblood of government. The Fed is saying that they may have no rate hikes until 2012, in an effort to spur activity as financial conditions have become more volatile as the banking sector in Europe is having issues. Cries for austerity abound regarding our huge national debt, so it is unlikely we'll get more federal stimulus dollars. The Fed stopped buying more mortgage-backed securities last quarter.

The USA may have Japan-disease, where we have a lost decade of slow growth plus high unemployment. After the early '80s recession, the economy in the USA grew at 7 percent and 9 percent five quarters in a row. Last quarter, the economy grew at 2.7 percent barely, which barely kept pace with new entrants into the job market. The government sector is leveraging to the hilt, but the private sector is deleveraging even with ultra-low rates.

Most of the tools have been used by the Fed to boost the economy, and there are not many bullets if there is a double dip recession.

To read more about the "Broken State of America," check out the cover article of Time magazine this week:

<http://www.time.com/time/nation/article/0,8599,1997284,00.html>

So, considering all of these macroeconomic factors, would you spend down the reserves (which is a total of 2.5 weeks of payroll) the City of San Jose has on hand? Would you personally spend your own savings down to zero if you had other alternatives?

Come out and enjoy the Rose, White and Blue Parade on July 4th. Sponsored in part by the San Jose Redevelopment Agency and The Alameda Business Association.

<http://www.rosewhiteblueparade.com/index.htm>

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